

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor: SUZANNE M. BUMP | KATE FITZPATRICK | ELIZABETH FONTAINE | KATHLEEN M. FALLON | JAMES M. MACHADO | ROBERT B. McCARTHY

March 24, 2016

The Public Employee Retirement Administration Commission has completed a review of the audit of the Middlesex County Retirement System conducted by the firm of Powers & Sullivan, LLC CPAs in accordance with the provisions of Chapter 32, Section 21 of the Massachusetts General Laws. The audit covered the period from January 1, 2011 to December 31, 2013. This audit was determined to be conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00 and in compliance with the provisions specified in PERAC Memo # 20 / 2008.

We conducted an inspection of the work papers prepared by Powers & Sullivan, LLC CPAs at their offices in Wakefield, MA on June 30, 2015. We determined that the audit was conducted in a competent professional manner and the work papers demonstrated that audit tests and procedures were performed in sufficient detail to allow us to accept the final audit report as issued.

We identified specific differences between this financial audit designed to provide an opinion on financial statements and our compliance audit designed to ensure adherence with the statute and regulations specific to the operations of a regional multiple employer defined benefit pension plan.

Accordingly, we supplemented the field work conducted in the audit by Powers & Sullivan, LLC CPAs with certain limited procedures designed to provide additional assurance that the accounting and management standards established by the Public Employee Retirement Administration Commission, contained in Regulation 840 CMR 25.00, were adhered to and complied with. We also inspected certain records of the Middlesex County Retirement System to identify unresolved issues related to 91A compliance. In addition, we tested the interest rules for refunds; inspected payroll records to confirm benefit calculations; initiated inquiries with employers to determine the basis for member contributions, compared deduction reports to actual payroll source records and performed certain other procedures.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those specifically noted in the Report on Internal Control (and Management Letter) prepared by the firm of Powers & Sullivan, LLC CPAs and presented as a part of this report. The content of such document has been posted on the PERAC web page as presented in the final version submitted by Powers & Sullivan, LLC CPAs to the Middlesex County Retirement Board.

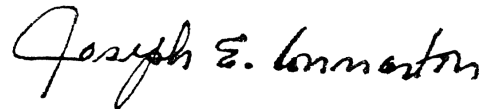


It should be noted that the financial statements included in this audit report were based on the work performed and the tests conducted during the time the audit was conducted for the period referenced in their opinion. This audit was not performed by employees or representatives of the Public Employee Retirement Administration Commission. It should be noted that the opinions expressed in this audit report were based on the laws and regulations in effect during the time the audit was conducted for the period referenced in this report.

The financial statements and footnotes presented in this report were limited to the express results as of and for the years ended December 31, 2011, December 31, 2012, and December 31, 2013.

In closing, I wish to acknowledge the work of Powers & Sullivan, LLC CPAs, who conducted this examination, and express my appreciation to the Board of Retirement and staff for their courtesy and cooperation. It should be noted that PERAC audit staff will follow up in six months to ensure that appropriate actions have been taken regarding all material weaknesses and deficiencies. In addition, this visit will allow us to determine that all matters and opportunities to strengthen internal controls and improve operating efficiency have been appropriately considered.

Sincerely,

A handwritten signature in black ink, reading "Joseph E. Connarton". The signature is fluid and cursive, with the first name "Joseph" and last name "Connarton" clearly legible.

Joseph E. Connarton,
Executive Director

MIDDLESEX COUNTY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011-2013

MIDDLESEX COUNTY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011-2013

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Financial Section



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Independent Auditor's Report

To the Honorable Middlesex Retirement Board
Middlesex County Retirement System
Billerica, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Middlesex County Retirement System (MCRS) as of and for the years ended December 31, 2011, 2012, and 2013, and the related notes to the financial statements, which collectively comprise the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 5.03: Annual Report. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Systems," in existence as of August 27, 2004, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As more fully described in Note 11, the MCRS contends that the Commonwealth of Massachusetts owes the System funds dating back to the abolishment of Middlesex County in 1997 for the unfunded liability of the Middlesex County retirees. As a result, the MCRS stopped making 3(8)(c) payments to the State Employees Retirement System while the State Board has intercepted cost of living reimbursements due from the Commonwealth. Accounting principles in accordance with the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 5.03: Annual Report requires that these assets, liabilities, fund balances, income and disbursements be reported. The amounts in dispute by which this departure would affect assets, liabilities, fund balances, income and disbursements have not been determined.

Qualified Opinion

In our opinion, except for the effect of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Middlesex County Retirement System as of December 31, 2011, 2012, and 2013 and the results of its operations and changes in its fund balances for the year then ended in accordance with the financial reporting provisions of the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 5.03: Annual Report described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the MCRS on the basis of financial reporting provisions prescribed by the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 5.03: Annual Report, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Commonwealth of Massachusetts' Commissioner of Public Employee Retirement Administration Commission (PERAC). Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, on our consideration of the Middlesex County Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Middlesex County Retirement System's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of MCRS, PERAC and all member units and is not intended to be and should not be used by anyone other than these specified parties.



November 19, 2014

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Financial Statements

STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE

DECEMBER 31, 2011-2013

	December 31, 2013	December 31, 2012	December 31, 2011
Assets			
Cash.....	\$ 54,434,684	\$ 3,697,825	\$ 17,659,319
Investments.....	949,872,734	870,940,319	758,215,570
Interest due and accrued.....	-	525	-
Receivables:			
Member deductions.....	1,948,291	2,856,389	3,784,115
Members contributions.....	3,816	3,816	3,816
Member make-up payments and redeposits.....	280,063	175,189	151,419
Reimbursements from other systems.....	1,422,900	1,073,821	1,544,330
Pension fund appropriations.....	563,488	2,595,217	45,336
Other.....	217,311	190,262	277,816
Prepaid expenses.....	77,080	70,415	70,416
Capital assets, net of accumulated depreciation.....	5,383,525	5,552,655	5,721,783
Total assets.....	<u>1,014,203,892</u>	<u>887,156,433</u>	<u>787,473,920</u>
Liabilities			
Accounts payable.....	<u>(190,477)</u>	<u>(137,277)</u>	<u>(156,787)</u>
Net assets available for pension benefits.....	<u>\$ 1,014,013,415</u>	<u>\$ 887,019,156</u>	<u>\$ 787,317,133</u>
Fund Balance			
Annuity Savings Fund.....	\$ 398,350,619	\$ 379,615,204	\$ 363,458,457
Annuity Reserve Fund.....	96,424,705	94,275,680	90,713,677
Special Military Service Credit Fund.....	84,105	84,021	83,937
Pension Fund.....	2,018,641	3,963,438	4,903,597
Pension Reserve Fund.....	<u>517,135,345</u>	<u>409,080,813</u>	<u>328,157,465</u>
Total fund balance.....	<u>\$ 1,014,013,415</u>	<u>\$ 887,019,156</u>	<u>\$ 787,317,133</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2013

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 41,649,260	\$ -	\$ -
Rent.....	-	-	-
Investment income.....	498,986	2,812,430	84
Total income.....	42,148,246	2,812,430	84
Disbursements and depreciation:			
Disbursements.....	(5,518,693)	(17,566,698)	-
Depreciation.....	-	-	-
Total disbursements and depreciation....	(5,518,693)	(17,566,698)	-
Net change in fund balance before interfund transfers in (out).....	36,629,553	(14,754,268)	84
Interfund transfers in (out), net.....	(17,894,138)	16,903,293	-
Net change in fund balance.....	18,735,415	2,149,025	84
Fund balance at beginning of year,.....	379,615,204	94,275,680	84,021
Fund balance at end of year.....	\$ 398,350,619	\$ 96,424,705	\$ 84,105

See notes to financial statements.

	Pension Fund	Pension Reserve Fund	Expense Fund	Total
\$	89,835,198	\$ 83,327	\$ -	\$ 131,567,785
	-	-	4,853	4,853
	-	118,130,547	8,596,459	130,038,506
	<u>89,835,198</u>	<u>118,213,874</u>	<u>8,601,312</u>	<u>261,611,144</u>
	(102,935,035)	-	(8,427,331)	(134,447,757)
	-	-	(169,128)	(169,128)
	<u>(102,935,035)</u>	<u>-</u>	<u>(8,596,459)</u>	<u>(134,616,885)</u>
	(13,099,837)	118,213,874	4,853	126,994,259
	<u>11,155,040</u>	<u>(10,159,342)</u>	<u>(4,853)</u>	<u>-</u>
	(1,944,797)	108,054,532	-	126,994,259
	<u>3,963,438</u>	<u>409,080,813</u>	<u>-</u>	<u>887,019,156</u>
\$	<u><u>2,018,641</u></u>	\$ <u><u>517,135,345</u></u>	\$ <u><u>-</u></u>	\$ <u><u>1,014,013,415</u></u>

STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2012

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 39,130,624	\$ -	\$ -
Rent.....	-	-	-
Investment income.....	494,960	2,737,072	84
Total income.....	39,625,584	2,737,072	84
Disbursements and depreciation:			
Disbursements.....	(5,998,753)	(16,210,640)	-
Depreciation.....	-	-	-
Total disbursements and depreciation....	(5,998,753)	(16,210,640)	-
Net change in fund balance before interfund transfers in (out).....	33,626,831	(13,473,568)	84
Interfund transfers in (out), net.....	(17,470,084)	17,035,571	-
Net change in fund balance.....	16,156,747	3,562,003	84
Fund balance at beginning of year,.....	363,458,457	90,713,677	83,937
Fund balance at end of year.....	\$ 379,615,204	\$ 94,275,680	\$ 84,021

See notes to financial statements.

	Pension Fund	Pension Reserve Fund	Expense Fund	Total
\$	83,082,727	\$ 175,651	\$ -	\$ 122,389,002
	-	-	200,117	200,117
	-	94,526,544	7,815,821	105,574,481
	<u>83,082,727</u>	<u>94,702,195</u>	<u>8,015,938</u>	<u>228,163,600</u>
	(98,436,363)	-	(7,646,693)	(128,292,449)
	-	-	(169,128)	(169,128)
	<u>(98,436,363)</u>	<u>-</u>	<u>(7,815,821)</u>	<u>(128,461,577)</u>
	(15,353,636)	94,702,195	200,117	99,702,023
	<u>14,413,477</u>	<u>(13,778,847)</u>	<u>(200,117)</u>	<u>-</u>
	(940,159)	80,923,348	-	99,702,023
	<u>4,903,597</u>	<u>328,157,465</u>	<u>-</u>	<u>787,317,133</u>
\$	<u>3,963,438</u>	\$ <u>409,080,813</u>	\$ <u>-</u>	\$ <u>887,019,156</u>

STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2011

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 38,030,100	\$ -	\$ -
Rent.....	-	-	-
Investment income.....	909,403	2,596,463	168
Total income.....	38,939,503	2,596,463	168
Disbursements and depreciation:			
Disbursements.....	(5,749,534)	(15,327,387)	-
Depreciation.....	-	-	-
Total disbursements and depreciation....	(5,749,534)	(15,327,387)	-
Net change in fund balance before interfund transfers in (out).....	33,189,969	(12,730,924)	168
Interfund transfers in (out), net.....	(18,612,283)	17,985,689	-
Net change in fund balance.....	14,577,686	5,254,765	168
Fund balance at beginning of year,.....	348,880,771	85,458,912	83,769
Fund balance at end of year.....	\$ 363,458,457	\$ 90,713,677	\$ 83,937

See notes to financial statements.

	Pension Fund	Pension Reserve Fund	Expense Fund	Total
\$	80,482,319	\$ 371,943	\$ -	\$ 118,884,362
	-	-	393,819	393,819
	-	(5,826,398)	7,314,440	4,994,076
	<u>80,482,319</u>	<u>(5,454,455)</u>	<u>7,708,259</u>	<u>124,272,257</u>
	(89,850,567)	-	(7,145,312)	(118,072,800)
	-	-	(169,128)	(169,128)
	<u>(89,850,567)</u>	<u>-</u>	<u>(7,314,440)</u>	<u>(118,241,928)</u>
	(9,368,248)	(5,454,455)	393,819	6,030,329
	<u>11,220,917</u>	<u>(10,200,504)</u>	<u>(393,819)</u>	<u>-</u>
	1,852,669	(15,654,959)	-	6,030,329
	<u>3,050,928</u>	<u>343,812,424</u>	<u>-</u>	<u>781,286,804</u>
\$	<u>4,903,597</u>	\$ <u>328,157,465</u>	\$ <u>-</u>	\$ <u>787,317,133</u>

STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 2011-2013

	December 31, 2013	December 31, 2012	December 31, 2011
Members deductions.....	\$ 37,388,554	\$ 35,840,556	\$ 34,616,366
Transfers of members' accounts from other systems.....	3,057,440	2,454,125	2,815,202
Members' makeup payments and redeposits.....	1,203,266	835,943	598,532
Reimbursements from other systems for Pension Fund.....	1,466,142	1,165,519	1,852,212
Employers' contributions to Pension Fund.....	88,289,856	81,896,208	78,594,607
Workers compensation.....	79,200	21,000	35,500
Federal grant reimbursement.....	34,756	37,240	67,607
Interest not refunded.....	14,681	34,516	87,871
Miscellaneous.....	33,890	103,895	216,465
Investment income (loss).....	130,038,506	105,574,481	4,994,076
Rental income.....	4,853	200,117	393,819
Total income.....	\$ <u>261,611,144</u>	\$ <u>228,163,600</u>	\$ <u>124,272,257</u>

See notes to financial statements.

STATEMENT OF DISBURSEMENTS

YEARS ENDED DECEMBER 31, 2011-2013

	December 31. 2013	December 31. 2012	December 31. 2011
Refunds of members' accounts from Annuity Savings Fund.....	\$ 2,438,401	2,634,209	\$ 2,813,915
Annuity portion of retirement allowance payments from Annuity Reserve Fund.....	17,250,291	16,020,897	14,908,034
Option B refunds from Annuity Reserve Fund.....	316,407	189,743	419,353
Superannuation and termination retirement allowance payments from Pension Fund.....	73,681,311	69,897,633	65,774,890
Survivor allowance payments from Pension Fund.....	3,913,983	4,818,894	4,649,886
Ordinary disability payments from Pension Fund.....	1,165,873	1,212,320	1,186,655
Accidental disability payments from Pension Fund.....	12,081,011	11,860,911	11,481,590
Accidental death benefits from Pension Fund.....	2,565,564	2,603,510	2,458,869
Section 101 benefits from Pension Fund.....	653,374	602,087	627,694
Reimbursements to other systems from Pension Fund.....	6,512,350	5,935,488	2,294,027
COLA's paid from Pension Fund.....	2,361,569	1,505,520	1,376,956
Investment management and custodial fees from Expense Fund.....	5,388,126	4,763,928	4,239,167
Board member stipend from Expense Fund.....	17,536	15,000	12,000
Staff salaries from Expense Fund.....	1,400,682	1,425,354	1,364,395
Legal expenses from Expense Fund.....	40,000	77,961	62,983
Medical expenses from Expense Fund.....	965	619	824
Travel expenses from Expense Fund.....	28,759	21,468	22,471
Fiduciary insurance from Expense Fund.....	178,335	173,174	102,757
Professional services.....	157,572	92,519	133,263
Administrative expenses from Expense Fund.....	965,732	915,366	849,390
Building operations and maintenance from Expense Fund.....	232,190	138,894	336,702
Furniture and equipment expenses from Expense Fund.....	-	1,166	-
Education and training.....	17,434	21,244	21,360
Transfer of members accounts to other systems.....	3,080,292	3,364,544	2,935,619
Depreciation.....	169,128	169,128	169,128
Total disbursements and depreciation.....	\$ <u>134,616,885</u>	<u>128,461,577</u>	\$ <u>118,241,928</u>

See notes to financial statements.

STATEMENT OF INVESTMENT INCOME

YEARS ENDED DECEMBER 31, 2011-2013

	December 31, 2013	December 31, 2012	December 31, 2011
Gross investment income.....	\$ 26,978,076	\$ 26,184,860	\$ 23,115,611
Add:			
Profit on the sale of investments.....	43,070,174	22,251,911	24,876,588
Increase in market value of securities.....	110,719,554	109,299,986	77,517,077
Less:			
Loss on the sale of investments.....	(1,555,737)	(2,292,629)	(1,965,349)
Decrease in market value of securities.....	(49,173,036)	(49,869,647)	(118,549,851)
Interest due and accrued, December 31, 2012.....	(525)	-	-
Net investment income (loss).....	<u>130,038,506</u>	<u>105,574,481</u>	<u>4,994,076</u>
Investment income required:			
Annuity Savings Fund.....	498,986	494,960	909,403
Annuity Reserve Fund.....	2,812,430	2,737,072	2,596,463
Special Military Service Credit Fund.....	84	84	168
Expense Fund.....	<u>8,596,459</u>	<u>7,815,821</u>	<u>7,314,440</u>
Total investment income required.....	<u>11,907,959</u>	<u>11,047,937</u>	<u>10,820,474</u>
Excess (deficiency) of investment income requiring transfer from Pension Reserve Fund.....	\$ <u><u>118,130,547</u></u>	\$ <u><u>94,526,544</u></u>	\$ <u><u>(5,826,398)</u></u>

See notes to financial statements.

NOTE 1 - PLAN DESCRIPTION

The Plan is a contributory defined benefit plan covering all employees of governmental member units deemed eligible by the Middlesex County Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. The Plan is administered by the Middlesex County Retirement System (the System).

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average for members hired after that date. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. In past years, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the Retirement Systems' unfunded liabilities, and in some Systems have actually reduced such liability.

Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented on the basis of accounting and reporting practices prescribed by PERAC. Financial accounting and reporting standards required by generally accepted accounting principles (GAAP) differ in some respects from the requirements of PERAC. The valuation of assets, liabilities and net assets are substantially the same. The main difference between GAAP and PERAC is that the financial statements for the changes in net assets/fund balances are presented in different formats.

The underlying accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by PERAC.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The Annuity Reserve Fund is the fund to which a Member's account is transferred upon retirement from the Annuity Savings Fund and the Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains the amounts appropriated by the governmental units for the purpose of funding retirement benefits. Any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund and Military Service Credit Fund is credited to the Pension Reserve Fund. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund.

The Expense Fund contains amounts transferred from investment income and rental income from the System's office building for the purpose of administering the System.

The Investment Income Account is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Credit Service Fund and Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement consisting of the Chairman, who shall be elected by the other four board members, a second member elected by the Advisory Council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman	Thomas F. Gibson	Term Expires:	12/31/2014
Advisory Council Member	Brian P. Curtin	Term Expires:	12/31/2015
Elected Member	John Brown	Term Expires:	12/31/2014
Elected Member	Edgar W. McLean	Term Expires:	12/31/2016
Appointed Member	Robert Healy	Term Expires:	12/17/2015

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer-Custodian:)	\$10,000,000 Fiduciary
Ex-Officio Member:)	RLI Insurance Company
Elected Members:)	
Appointed Members:)	\$1,000,000 Fidelity
Staff Employees:)	National Union Fire Insurance

NOTE 4 – OFFICE BUILDING

The MCRS owns an office building that was purchased as an investment and for the administrative offices of the System. The building is a two story, 1986-built office building consisting of 62,222 square feet of net rentable area. The property is situated on a 4.23 acre site in Billerica, Middlesex County, Massachusetts

NOTE 5 – CASH AND INVESTMENTS

The Middlesex County Retirement System committed 92% of its investments to the Pension Reserve Investment Trust (PRIT) for a five year period and current investment regulations do not apply. The funds were transferred February 1, 2007 and the five year period ended in 2012. The System continues to voluntarily maintain at least 92% of its investments in PRIT.

Custodial Credit Risk - Deposits

At December 31, 2013, the carrying amount of the System's deposits totaled \$6,080,667 and the bank balance totaled \$8,000,389 which was covered by Federal Depository Insurance.

At December 31, 2012, the carrying amount of the System's deposits totaled \$1,083,478 and the bank balance totaled \$3,841,689 which was covered by Federal Depository Insurance.

At December 31, 2011, the carrying amount of the System's deposits totaled \$834,434 and the bank balance totaled \$3,424,419 which was covered by Federal Depository Insurance.

Investments

The System's investments over the past three years are as follows:

<u>Investment Type</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
PRIT Pooled Funds.....	\$ 923,925,681	842,159,297	\$ 729,126,855
Money Market Mutual Funds.....	48,354,017	2,614,347	16,824,895
Pooled Alternative Investments.....	8,924,211	10,381,854	11,091,919
Pooled Real Estate Funds.....	17,022,842	18,399,168	17,996,796
Total Investments.....	<u>\$ 998,226,751</u>	<u>873,554,666</u>	<u>\$ 775,040,465</u>

Approximately 93%, 96%, and 94% of the Retirement System's investments consist of PRIT for the years ended December 31, 2013, 2012, and 2011, respectively. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares.

NOTE 6 – CAPITAL ASSETS

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Building.....	40
Building improvements.....	40
Ford Pick-up truck with plow.....	5

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 672,657	\$ -	\$ -	\$ 672,657
<u>Capital assets being depreciated:</u>				
Buildings.....	5,417,136	-	-	5,417,136
Building improvements.....	1,086,623	-	-	1,086,623
Ford Pick-up truck with plow.....	19,603	-	-	19,603
Total capital assets being depreciated.....	6,523,362	-	-	6,523,362
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,354,284)	(139,786)	-	(1,494,070)
Building improvements.....	(271,656)	(27,165)	-	(298,821)
Ford Pick-up truck with plow.....	(17,424)	(2,179)	-	(19,603)
Total accumulated depreciation.....	(1,643,364)	(169,130)	-	(1,812,494)
Total capital assets being depreciated, net.....	4,879,998	(169,130)	-	4,710,868
Total capital assets, net.....	\$ 5,552,655	\$ (169,130)	\$ -	\$ 5,383,525

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 672,657	\$ -	\$ -	\$ 672,657
<u>Capital assets being depreciated:</u>				
Buildings.....	5,417,136	-	-	5,417,136
Building improvements.....	1,086,623	-	-	1,086,623
Ford Pick-up truck with plow.....	19,603	-	-	19,603
Total capital assets being depreciated.....	6,523,362	-	-	6,523,362
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,218,856)	(135,428)	-	(1,354,284)
Building improvements.....	(244,490)	(27,166)	-	(271,656)
Ford Pick-up truck with plow.....	(10,890)	(6,534)	-	(17,424)
Total accumulated depreciation.....	(1,474,236)	(169,128)	-	(1,643,364)
Total capital assets being depreciated, net.....	5,049,126	(169,128)	-	4,879,998
Total capital assets, net.....	\$ 5,721,783	\$ (169,128)	\$ -	\$ 5,552,655

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 672,657	\$ -	\$ -	\$ 672,657
<u>Capital assets being depreciated:</u>				
Buildings.....	5,417,136	-	-	5,417,136
Building improvements.....	1,086,623	-	-	1,086,623
Furniture and fixtures.....	533,617	-	(533,617)	-
Ford Pick-up truck with plow.....	19,603	-	-	19,603
Total capital assets being depreciated.....	7,056,979	-	(533,617)	6,523,362
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,083,428)	(135,428)	-	(1,218,856)
Building improvements.....	(217,324)	(27,166)	-	(244,490)
Furniture and fixtures.....	(533,617)	-	533,617	-
Ford Pick-up truck with plow.....	(4,356)	(6,534)	-	(10,890)
Total accumulated depreciation.....	(1,838,725)	(169,128)	533,617	(1,474,236)
Total capital assets being depreciated, net.....	5,218,254	(169,128)	-	5,049,126
Total capital assets, net.....	\$ 5,890,911	\$ (169,128)	\$ -	\$ 5,721,783

NOTE 7 - ACTUARIAL VALUATION

The most recent actuarial valuation of the System was prepared as of January 1, 2012, and contained the following information:

The total covered employee payroll was \$393,100,995.

The actuarial accrued liability for active members was \$980,787,374

The actuarial accrued liability for retired participants and beneficiaries and inactive members was \$993,357,535.

The total actuarial accrued liability was \$1,974,144,909.

The actuarial value of assets was \$862,323,395.

The unfunded actuarial accrued liability was \$1,111,821,514.

The normal cost for the employer was \$19,066,576.

The principal actuarial assumptions used in the valuation were as follows:

Mortality:	The RP-2000 Mortality Table and the RP-2000 Healthy Annuitant Mortality Table.
Investment return:	8.00%
Individual salary increase:	4.75% for Groups 1 and 2 and 5.25% for Group 4
Cost of living adjustments:	3.0% of first \$13,000 of retirement income, increasing to \$14,000 on July 1, 2012.
Rates of retirement:	Varies based upon age for general employees, police and fire employees.
Rates of disability:	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).
Actuarial cost method:	Entry Age Normal Cost Method.

NOTE 8 - MEMBERSHIP

The following table represents the System's membership at December 31, 2013, 2012, and 2011:

	2013	2012	2011
Active members.....	10,531	10,413	10,413
Inactive members.....	1,463	1,618	1,618
Disabled members.....	455	462	465
Retirees and beneficiaries currently receiving benefits.....	4,581	4,545	4,521
Total.....	17,030	17,038	17,017

NOTE 9 – SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 862,323,395	\$ 1,974,144,909	\$ 1,111,821,514	43.7%	\$ 393,100,995	282.8%
01/01/10	819,987,914	1,743,581,707	923,593,793	47.0%	384,933,571	239.9%
01/01/08	774,863,669	1,529,806,307	754,942,638	50.7%	360,206,302	209.6%

NOTE 10 – TOWN OF ACTON SETTLEMENT

In March of 2011 the Town of Acton and the MCRS reached a settlement regarding a civil suit filed by the Town of Acton. The Town of Acton sought relief relating to increased assessments due to investment losses incurred by the System. The MCRS agreed to credit against (i.e. to reduce) Acton's annual assessment by a total credit of \$300,000, which is to be credited, at a minimum, in installments of \$37,500 per year for a period of eight years or in larger installments until the total credit of \$300,000 is paid in full to Acton, whichever is earlier. Without limiting the foregoing, the MCRS intends to fund the credit through the System's operating budget and will not increase assessments to members of the System (including Acton) to fund the credit. The Parties agree that Acton shall receive the credit for each year that Acton is a member of the MCRS so that if Acton ceases to be a member of the MCRS, any remaining amount of the credit then outstanding will be forfeited. The Parties further agree that the MCRS may, at its discretion, credit all or a part of this obligation in one year. If the MCRS credits more than \$37,500 in any given year, the remaining years' obligations will be ratably and proportionally reduced. The Town of Acton has been credited \$37,500 for 2013, 2012, and 2011 totaling \$112,500 as of December 31, 2013.

NOTE 11 – DISPUTE WITH THE COMMONWEALTH AND STATE EMPLOYEES RETIREMENT SYSTEM

The County of Middlesex was abolished on July 11, 1997, pursuant to Chapter 48 of the Acts of 1997. This Act required that active employees of Middlesex County be transferred to the Commonwealth. Therefore the MCRS was required to transfer the Annuity Savings Fund Balances of these transferred County employees to the State Employees Retirement System (SERS). This transfer, totaling approximately \$18 million, was made during calendar year 1998.

In December of 1999, the State Legislature enacted Massachusetts General Law, Chapter 34B (Abolition of County Government). This legislation, among other things, defines the components of determining the overall surplus or deficit of an abolished County upon transfer to the Commonwealth and how regional retirement systems will be affected. Sections 8 and 18 address unfunded liabilities in regional retirement systems succeeding abolished County Retirement Systems. The MCRS believes, as a result of the abolishment of Middlesex County, that the Commonwealth of Massachusetts owed them \$9,501,680 for the Unfunded Liability for retirees of the former Middlesex County.

The Commonwealth and SERS did not agree with the assertion that the MCRS was owed \$9,501,680. As a result, the MCRS acted to stop 3(8)(c) reimbursements to the State Employees Retirement System and correspondingly the State System began to intercept all COLA reimbursements which were due the MCRS. In 2012 the MCRS reinstated payments for 3(8)(c) reimbursements to the SERS. The SERS and MCRS are currently working to determine the amount owed after accounting for the 3(8)(c) reimbursements and COLA reimbursements which were withheld. As of the date of this report no payments have been received by the MCRS, however, it is anticipated that payments will be initiated in 2014. The \$9,501,680 amount due to the MCRS is being discussed by the parties but there is no resolution as of the date of this report.

The above mentioned transactions have not been reported in these financial statements.

MIDDLESEX COUNTY RETIREMENT SYSTEM

FINDINGS AND RECOMMENDATIONS

YEARS ENDED DECEMBER 31, 2011-2013



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To the Honorable Middlesex Retirement Board
Middlesex County Retirement System
Billerica, Massachusetts

In planning and performing our audit of the financial statements of the Middlesex County Retirement System (MCRS) as of and for the years ended December 31, 2013, 2012, and 2011 we considered the system's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, we became aware of findings and other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations concerning these matters. We updated the status of all findings to include changes made by MCRS from our initial report date of November 19, 2014 through September 28, 2015. Therefore some findings do not have a management response.

This letter does not affect our report dated November 19, 2014, on the financial statements of the Middlesex County Retirement System.

The accompanying comments and recommendations are intended solely for the information and use of management of the Middlesex County Retirement System (MCRS) and the Public Employees Retirement Administration Commission (PERAC), and are not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next engagement. We have already discussed these comments and recommendations with various personnel, and we will be pleased to discuss them further at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Powers & Sullivan, LLC

November 19, 2014, updated through September 28, 2015

MIDDLESEX COUNTY RETIREMENT SYSTEM

FINDINGS AND RECOMMENDATIONS

YEARS ENDED DECEMBER 31, 2011-2013

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Status of Prior Audit Findings

PERAC completed an examination of the Middlesex County Retirement System for the period January 1, 2008 through December 31, 2010 and issued their opinion, findings and recommendations in a report dated December 20, 2011. The examination included 8 findings which are summarized below along with the current status of each finding.

1. Member Deductions

Prior Finding

There was a 15% error rate for withholding the correct amount of 2% additional contributions for members earning over \$30,000 and 14% of the governmental units sampled had questionable pay codes classified as regular compensation.

Current Status – **Resolved** – The System identified the errors in pay codes and made the corrections. We did not identify issues in 2012 or subsequent years.

2. Old Outstanding Checks

Prior Finding

The System had approximately 250 checks outstanding for more than six months.

Current Status – **Resolved** – The System has worked to resolve the majority of the old outstanding checks. While the outstanding checks greater than six months old still exist, the number of checks and amount are deemed reasonable

3. Travel Expenses

Prior Finding

Meal Reimbursements

The travel policy for the System reimburses the cost of meals and nonalcoholic beverages for board members away on travel. Documentation is required to support the reimbursement request.

Current Status – **Resolved** – No instances were noted where reimbursements occurred without the support of an itemized receipt.

Rental Car Reimbursements

The travel policy for the System allows for the use of a standard grade rental vehicle from a national agency. Standard grade is defined as an intermediate or full sized vehicle.

Current Status – **Resolved** – No instances were noted where the receipt for rental cars did not indicate the vehicle grade.

4. Refund and Transfer Testing

Prior Finding

When individuals leave the system, their contributions are either transferred to a new system or refunded to the individual. A selection of the System's refunds and transfers were tested to ensure that the amounts were correct, that the transactions were properly approved, and the correct individual was being reimbursed.

Current Status – **Resolved** – The System provided all supporting documentation for the refunds and transfers tested.

5. Availability of Board Minutes

Prior Finding

The Retirement Board meeting minutes for the entire year were not readily available during the time of the audit. The minutes to Board Meetings are a legal requirement to have readily available as a public record. Any significant delay is considered a compliance violation. Board minutes should be transcribed, approved and available for public review on a timely basis.

Current Status – **Resolved** – We were provided with all requested board minutes.

6. Withheld Checks

Prior Finding

Several large checks that were issued during 2010 had not cleared the bank as of the date of the report. These checks were for payments to the Worcester and Waltham Systems for 3(8)(c) reimbursements. They were withheld by MCRS due to outstanding receivable balances from the Worcester and Waltham Retirement Systems for 3(8)(c) payments dating back to 2008. MCRS needs to adopt formal policies to collect valid amounts receivable.

Current Status – **Resolved** – The System voided all checks that were being withheld and has established procedures to collect valid receivables.

7. Independent Valuation of Real Estate and Alternative Investments

Prior Finding

The System uses State Street Corporation (State Street) as the custodian of their investments. State Street is not contractually obligated to, nor does it, independently verify the balances of pooled real estate and pooled alternative investments. At December 31, 2010 these investments accounted for approximate \$24 million, which represents 4.6% of the total investments of the System. MCRS does not have a third party independently verify the value of these investments. Not having a periodic independent valuation of these investment increases the risk that the asset values are misstated.

Current Status – **Resolved** – The System receives audited financial statements from the fund managers to verify the value of the real estate and alternative investments.

8. Member Make-Up and Redeposit ReceivablesPrior Finding

As of December 31, 2010, the System had approximately \$290,000 of receivables for Member Make-Up and Redeposits. Approximately 70% of these did not have any activity during 2010 and some dated back to 2004 without activity. The System does not have a policy to pursue these collections and the member can maintain a balance as long as they are in the System. MCRS should adopt a collection policy that will be followed in the case of unpaid amounts due. Once the policy is adopted it should be applied to all amounts currently due.

Current Status – **Resolved** – The system has adopted a policy to write off old receivable balances that have had no activity for two consecutive years.

Current Findings, Recommendations and Questioned Costs

1. Signature Stamps and Petty Cash

Finding

During 2011 the System utilizes a check signature stamp which is in the custody of the Director. This stamp is stored in an unlocked drawer in the Director's office, which is frequently left unlocked and unattended. The System's petty cash, used for purchasing office supplies and other miscellaneous items, is stored in the same location. We recommend that all petty cash and signature stamps be stored in a locked safe at all times to prevent unauthorized access and theft.

Current Status – **Resolved** – Signature stamps are now kept in a locked box at all times in the Directors office. The System discontinued the use of petty cash in 2014.

2. Refunds

Finding

All refunds processed by the System are required to be authorized by the Director prior to the completion of the transaction. In our testing of 30 refunds in 2012 we encountered a 17% error rate in which five refunds were not authorized by the Director.

All refund request forms submitted to the System are required to have a witness signature prior to the transaction being processed. In our testing of 30 refunds we encountered a 10% error rate in which three refund request forms had no witness signature. The System indicated that there are no procedures currently in place to acquire a witness signature if not present on the initial refund request form.

We recommend that the System implement procedures to ensure all refund request forms are properly completed and submitted to the Director for authorization prior to payment.

Current Status – **Resolved** – All refunds selected for testing in 2013 were authorized by the Director and included a witness signature.

3. Transfers

Finding

In our testing of transactions for 2012 we encountered one transfer that was initially processed in August 2012. Due to a subsequent withholding error with the members account, the initial transfer check was held by the System until the error could be resolved. As of July 2013 the System is still holding the initial transfer check and the error has yet to be resolved. We recommend that the System implement procedures to ensure all transfers are completed in a timely manner and void any checks issued that are not going to be sent.

Current Status – **Resolved** – We did not identify any transfer transactions in 2013 that were not completed in a timely manner as described.

4. Travel Reimbursements

Finding

In our testing of travel reimbursements for 2012 we encountered one reimbursement that was processed, and a check issued, without adequate documentation being provided to support the reimbursement. We also encountered an instance in which a single hotel room deposit was reimbursed to a board member on two separate travel reimbursements. We recommend that the System implement procedures to ensure all eligible travel expenditures are reimbursed only once and that reimbursements are not processed without sufficient supporting documentation, in accordance with the System's travel reimbursement policy.

Current Status – Resolved – In our testing of travel reimbursements in 2013, we did not identify any instances where board members were reimbursed multiple times for the same expenditure. We did, however, identify one transaction that was not supported by a detailed receipt as well as other issues with regard to travel reimbursements, which were subsequently resolved in 2014.

5. Transfers

Finding

Authorized transfers to other systems are to include accumulated contributions and interest as well as documentation of earned credible service. In our testing of transfers for 2013, we encountered one instance, a 3% error rate, in which the credible service documented in the processed transfer to another system was incorrectly calculated.

We recommend that the System implement procedures to ensure the earned credible service is properly calculated on all transfers to other systems.

Management Response

In this one instance, a member's transferred creditable service was miscalculated by one year. The pertinent retirement system was notified and the liability acceptance letter has been revised. The Board is implementing procedures to have transfers of member's accounts reviewed by more than one staff person.

Current Status – Resolved – We did not identify any transfers to other systems that were calculated incorrectly in our 2014 testing.

6. Travel Reimbursements

Finding

We reviewed 100% of the 2013 costs charged to the travel reimbursement account in the System's general ledger for adherence with the System's travel policy, as well as the regulations over retirement board travel per 840 CMR 2.00. In our testing we noted instances in which travel related costs were reimbursed by the System that were not in accordance with both the System's travel policy nor 840 CMR 2.00.

- The System's travel policy states that all reimbursement requests are to undergo a tri-level review prior to the reimbursement check being issued. We identified two separate reimbursement

requests that were processed, and a check issued, in which one of required reviewers did not sign off on the request form.

- Per 840 CMR 2.00, as well as the System's travel policy, all meals submitted for reimbursement are to be accompanied by original, itemized receipts. We encountered one instance in which the non-itemized version of the receipt was provided. Additionally, 840 CMR requires that in instances where reimbursement is sought for meal expenses for others, those individuals are to be identified along with their affiliation. We noted two separate instances in which meals were reimbursed to a board member without appropriate supporting documentation to indicate the other members in attendance along with their affiliation with the System.
- Per 840 CMR 2.00, retirement boards may reimburse board or staff members for gratuities in accordance with local customs. We noted one instance in which a board member was reimbursed for a meal gratuity amounting to 96%; or \$65.00 on a \$67.70 bill.

We recommend that management implement procedures to ensure all approved travel reimbursements are in accordance with both 840 CMR 2.00 as well as the System's travel policy.

Management Response

It is the Board's policy to audit and review all travel reimbursements. The tri-level staff review process has been in place for several years. Unfortunately, due to periodic absences of staff members in 2013, some expense reimbursements did not contain the signature of one reviewer. This has since been corrected, and the Board will take steps to ensure that all travel reimbursement requests continue to undergo tri-level review, with appropriate signatures.

Current Status – Resolved – We did not identify any travel reimbursements in our 2014 testing that were not in accordance with both 840 CMR 2.00 and the System's travel policy.

7. **Misclassified Costs**

Finding

In our review of transactions for 2013, we noted a payment to a local restaurant for dinner and refreshments in connection with the third and final meeting of the 100th anniversary committee. Upon review of the documentation supporting the transaction, it was noted that the expense was to be allocated to the System's travel and education account, however, it was instead charged to office supplies. In accordance with the System's travel and education policy, the event should have been discussed and approved by the board during an open meeting. We found no evidence of pre-approval.

We subsequently reviewed the expenditures of the previous two meetings and noted that they were held at the same restaurant at approximately the same time each year. These expenditures were also classified as office supplies. These functions appear to be holiday parties and we do not believe they are allowable in accordance with PERAC regulations.

We recommend that the System implement procedures to ensure all travel and education costs are pre-approved by the board, as well as to ensure all costs are allowable and charged to the intended general ledger account.

Management Response

The purpose of the 100th Anniversary Committee was to commemorate and publicize the passage of legislation allowing the creation of the Middlesex County Retirement System on December 2, 1911. Other retirement systems, including the State Employees Retirement System and Massachusetts Teachers Retirement System, have also publicly acknowledged their 100th anniversary. As reflected in the minutes of the Board meeting held on December 15, 2011, expenses of the 100th Anniversary Committee were approved at an open public meeting. However, the Board did not annually approve expenses thereafter. The Board vote did not specify the ledger account from which expenses were to be paid, but file notes indicate that the Board intended to pay expenses from the “travel and education” account. PERAC had subsequently instructed that for accounting purposes, expenses for “education and training” are to be separated from “travel” expenses. While the 100th Anniversary Committee did meet annually in December of each year, those dates were a coincidence of space and time based upon the System’s December 2nd anniversary date. The office staff held a separate holiday celebration each year.

Notwithstanding, the Board will review implementing further policies to ensure that all travel and education costs are preapproved, and to ensure that expenses are allowable and charged to the intended general ledger account.

Partially resolved – We did not identify any expenditures for holiday parties in the testing for 2014, however, we did identify one employee luncheon that was posted to an improper account.

8. Government Accounting Standards Board (GASB) Statements for Pensions

Recommendation

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions. These new standards will start to phase in during 2014 and will substantially impact the financial statements of the members of the System and will also affect the requirements for accumulating the necessary data to meet these reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in 2015.

GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a net pension liability (asset) determined annually as of the year end. Net pension liability (asset) equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

We recommend that the System begin to study and evaluate these changes in relation to the members' financial statement reporting and disclosure requirements. The System should formulate a plan with the actuary to ensure that the required information is available for members of the System to comply with the new GASB statements.

Current Status – **Resolved** – The new GASB statements were implemented in 2014.